RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Apr. 23, 1997 **LETTER 1224**

Apr. 11 DJIA 6391.69; PTI 4813; A-D Ratio +1.91
Apr. 18 DJIA 6703.51; PTI 4829; A-D Ratio +2.43
Dow Yield: 1.82%; Dow Price/Earnings: 18.8
Dow 144-day MA: 6503; Dow 34-day MA: 6699
Dow Times Book Value: 5.01; PTI 89-day MA: 4791
Percentage of Undervalued Blue-chips: 6%
Gold 144-day MA: 364

THE MARKET: A lot of smart people are debating whether the stock market: **(1)** has experienced a "normal and much needed" decline, but one that has about run its course, **(2)** is in the midst of a bull market correction that has further to go, or **(3)** has put in a major top, preparatory to the start of a primary bear market of undetermined duration and extent.

What's the answer? The answer is that there is no definite answer -- **yet.** As this is written, the stock market is in that strange and puzzling area that I call "no man's land." When you think about it could there be any greater irony? Here we are with multi-trillions of dollars invested in the stock market -- and nobody on Wall Street or anywhere else can say with authority what the status of the stock market is.

This situation will not last. Ultimately, the averages will render their verdict. They will either break out to new all-time highs, telling us (re-confirming) that the bull is still very much alive. Or the averages will follow the lead of the thousands of smaller-cap stocks (the majority of which have been declining). If that happens, we'll know that we're in a bear market, and that the primary trend has finally turned bearish.

In the last Letter I directed particular attention to my **Primary Trend Index (PTI).** In that Letter I wrote, *"Currently, the PTI is doing something that I haven't seen in many years. The PTI has been tracing out the pattern of a 'head-and-shoulders' top. Note that I've drawn a 'neckline' or line of support at the 4816 level."*

On Friday, April 11, with the Dow down 148 points, the PTI plunged below the **4816** level, violating its support and dropping to its lowest level since mid-February (see page 2 chart). However, the next day the PTI turned up again, and on an overview, you have to conclude that the PTI has been moving sideways in a tight trading range ever since early February (one of the narrowest ranges seen in years). The critical level for the PTI is the level of its 89-day moving average, which now stands at 4790. However, it's been rallying since its March 11 low.

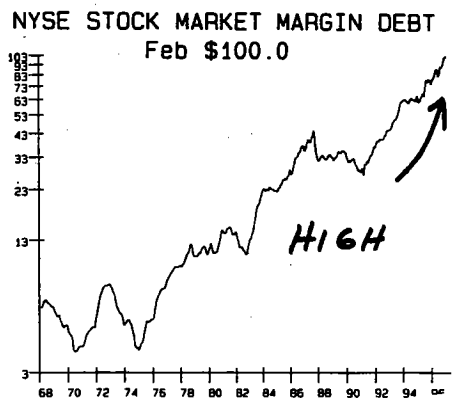
Turning to the **Dow Theory** (which, of course, I always do), the action of the Averages is so unusual that it can almost be termed amazing. On April 17 the D-J Transportation Average rallied to a new all-time high, the high again unconfirmed by the Dow. This is the **third time** we have seen Transports rise to unconfirmed new highs.

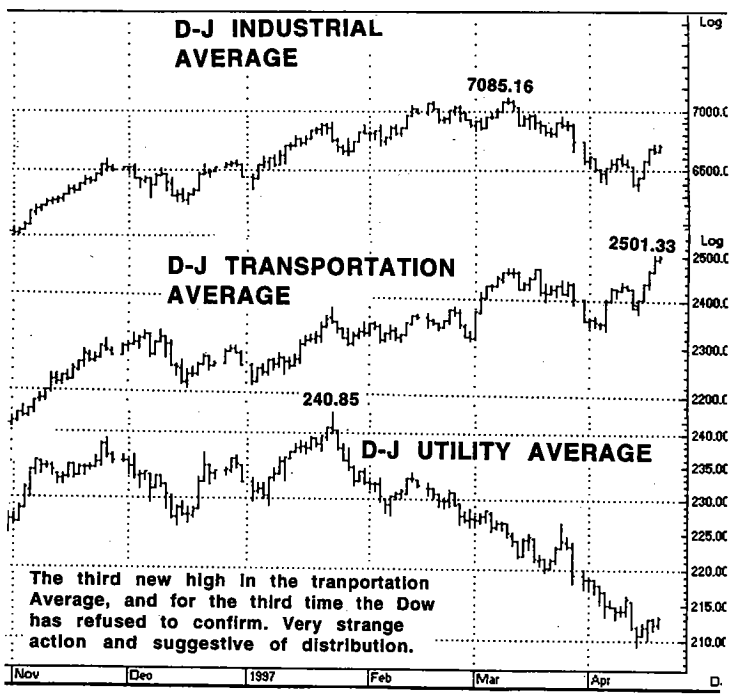
What's the meaning of this persistent strength in Transports and the persistent refusal by Industrials to confirm? In answer, I can only turn to a basic tenet of Dow Theory which states, "A penetration of one Average, unconfirmed by the other, is meaningless for prediction purposes and very likely to be deceptive."

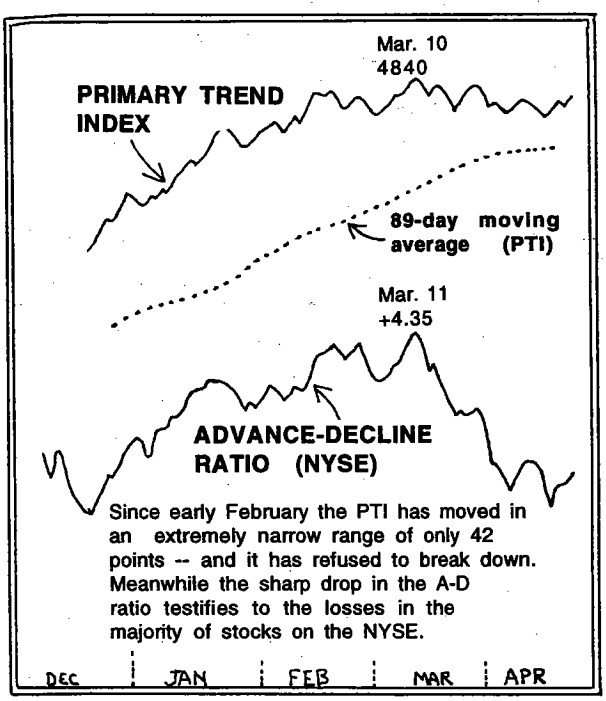
The stock market never makes it easy for you, and the situation is seldom crystal clear. Classically, when the averages "disagree," it's a sign of distribution, a sign that disharmony has taken over on the stock market. Consecutive non-confirmations create a vacuum in the stock market. The market, like nature, abhors a vacuum, and in due time the vacuum will be filled. Which direction will the market take when it fills the vacuum? My guess, and it's only a guess -- down.

Aside from the Transports/Dow non-confirmation and the PTI, a third item I'm watching with interest is total **margin debt on the NYSE.** The accompanying chart (courtesy of Ed Hyman and *ISI)* shows margin debt rising to $100 billion last month, the highest level in history. There is a close correlation between the trend of margin debt and the primary trend of the stock market.

Bull markets tend to encourage speculators, and when speculators are encouraged, they turn to their "best friend," their margin account. And they load up with stocks -- on margin. Therefore, margin debt tends to rise during a bull market, and just as surely margin debt declines during a bear market. Current fact: margins on the NYSE are now at their highest level in history -- at $100 billion. Note: unfortunately, there is a **lag** between when the margin debt is tabulated and when the figures are released. Thus, margin levels may have turned down and a few weeks could pass before we would be aware of it.






Mar. 10
4840
PRIMARY TREND INDEX
89-day moving average (PTI)
Mar. 11
+4.35
ADVANCE-DECLINE RATIO (NYSE)
Since early February the PTI has moved in an extremely narrow range of only 42 points -- and it has refused to break down. Meanwhile the sharp drop in the A-D ratio testifies to the losses in the majority of stocks on the NYSE.
DEC
JAN
FEB
MAR
APR

Conclusion: It's a sloppy non-confirming market, it's a deceptive market, it's a market that has accumulated a lot of losses -- but the bull is still hanging on by his fingernails (hooves?). Each time it looks like the bull is going to run into trouble, the market turns around and rallies. Patience, dear subscribers, patience.

Russell opinion: In retrospect, the market's been in a **trading range** all year. When the market's in a trading range, it's "thinking over" the situation. What's the market thinking? A few guesses -- **(1) world deflation; (2) increasingly vicious global competition.**

Comments: I follow a good many small cap stocks, and the declines from the highs in many of these stocks have already been of bear market proportions, and I'm talking about declines of 20% and 30% and 40% and even more.

A number of analysts are stating that the "correction" in the smaller cap stocks "should be" coming to an end, and when this "stealth bear market" ends, the small cap stocks will follow the large cap stocks back up to the highs.

Of course, the other side of the coin is that there are a great many **more smaller cap stocks** than large cap stocks. The large cap stocks are the generals and the thousands of small cap stocks are the troops. The bears remain skeptical; they state that history is on their side, and that in due time the generals will follow the troops to lower levels. Historically, when market breadth (i.e., the majority of stocks) turns down, in almost all cases, the big cap stocks will follow the majority down.

Russell opinions and comments: **(1)** As matters stand and from what I see so far, I believe an *extended and very deceptive top* is in the process of formation. But a strange phenomenon -- I don't believe I've ever seen so many individual losses in a market that is still (from a large-cap standpoint) fluctuating within a top area.

(2) A lot of nonsense is being spouted regarding how or why the public will not sell their stocks or their funds, "even if we get a 15% correction." Other analysts are saying that a bear market is out of the question because the ingredients for an economic recession are missing.

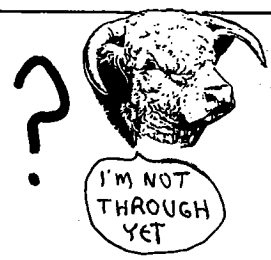
If stocks go into a bear market, I can guarantee that the public will sell. Furthermore, if it's an extended bear market, at some point the public will not only sell, they will panic. Finally, if selling becomes severe and large-cap losses start to approach 35% to 40%, there WILL be an economic recession as the public pulls in its horns and fear takes over.

Today's young analysts don't understand how stock market psychology works. Nor do they realize how quickly investors' sentiment can change from bullish and frothy to bearish and gloomy. Finally, today's young analysts don't realize that stocks and investor sentiment move far more rapidly in bear markets than in bull markets.

(3) Interest rates: analysts continue to debate why the Fed raised Fed Funds or whether the Fed should have raised rates. In my opinion, the Fed's action (raising Fed Funds by 0.25%) was NOT the reason for the stock market's decline. After all, the weakness in the majority of stocks started many months before the Fed's move.

When the market is ready to top out, it can just do it -- it doesn't need a "reason." At other times, the market will zero in on any item, minor or major, thus providing the public with a much-desired "reason" for the top-out. Therefore, beware of popular explanations as to "why a bull market has ended." The reason, the real reason, it that at the top, the market was exhausted. Bull markets and bear markets always end in only one way -- exhaustion.

INVESTMENT POSITION: Erosion in many stocks, the Dow holding up, Transports at new highs, Utilities collapsing along with gold shares, it ain't easy. A few Letters back I hazarded a guess that the stock market was moving into a trading range. And I guess that's about what's happened.



Look at it this way. Last December 16 the S&P 500 closed at a low of 720.98. It hasn't been that low since. On the other hand, on February 18 the S&P 500 closed at a record high 816.29. It hasn't been higher since. That's a range of about 12-13% over the last four months. I guess you can call that a trading range.

I've got a small bull in the box. Reason: it's a bull market until proved otherwise, and I haven't received any "otherwise" yet. Still the action in many stocks has been so rotten that I've given the bull company -- a question mark.

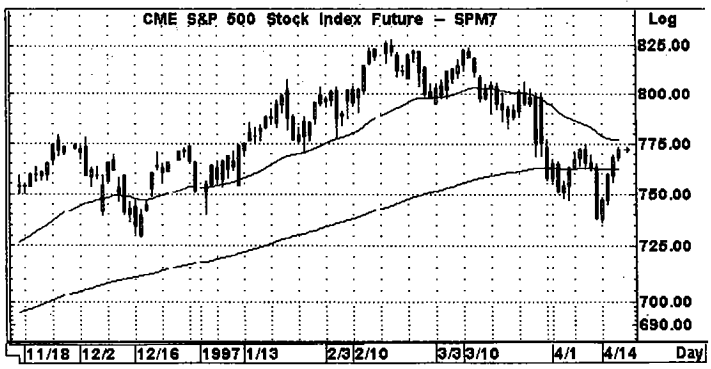
The big picture could now be **world deflation.** Is this what gold is telling us? For the last few years I've been warning that Asia (particularly China) will represent an enormous source of SUPPLY rather than the widely-advertised demand. It's clear that pricing power (inability to raise prices) is a problem in a growing number of areas.

Conclusion: If world deflation is our future, Treasury bonds yielding the current over-7% may well be the place to be. It's worth thinking about.

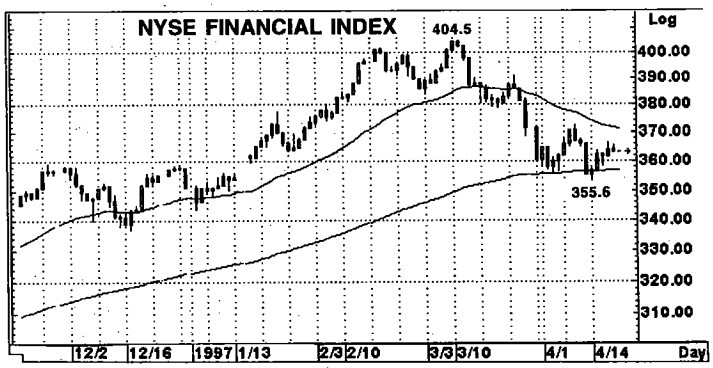
CHARTS: Probably the most important single chart at this juncture is the chart of the June S&P Futures. This is the area which every sophisticated trader and investor watches. You remember that I said that the S&P futures now "control" the market. The S&P futures don't make the major or primary trend of the market, but *they do set the daily action.*

The chart shows the daily **S&P June Futures** along with the 34-day and 144-day moving averages (MAs). On March 13 the S&Ps broke below their 34-day MA; then on March 31 the S&Ps broke below their 144-day MA. A little rally took place, but on April 11 the S&Ps broke below its 144-day MA for the second time. That last decline put the S&Ps in a severely oversold condition. On April 12 a powerful rally took place, and by April 17 the S&P was nearing its 34-day MA again. The 34-day MA now stands at 776.

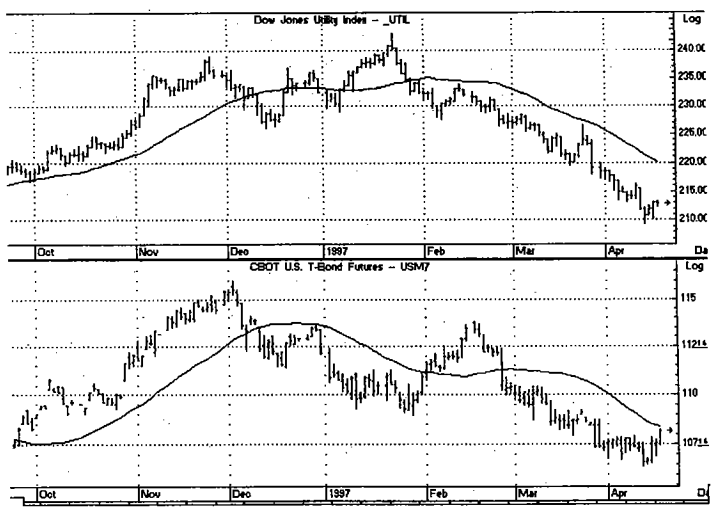
A push **above 776** would be major PLUS for the S&Ps, possibly putting the S&Ps in position to test the highs.



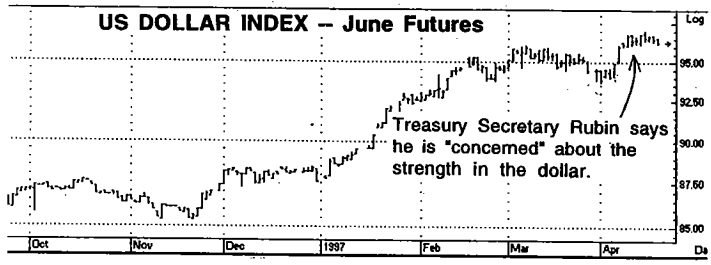
The second chart shows the **NYSE Financial Index.** This index is extremely important since it includes ALL the financial stocks on the NYSE -- banks, S&Ls, small loans, insurance, brokerage. This index is in a clear downtrend, having broken well below both its 34-day MA but still well above its 144-day MA. Status: neutral-bearish.



Subscribers know that this is a key chart. It's the chart of the **D-J Utility Average** and the **June bond futures.** I showed this chart in the last Letter (both Averages at that time were shown to be at new lows). The utilities continue to act poorly. But the bonds appear to have put in a bottom. I show a 34-day MA on each item. The MA for the bonds stands at 108 12/32nds. A further rally by the June bonds to near 109 would be impressive.



The **Dollar Index** is at the highs -- at the same time the yen has dropped to a four-and-a-half year low. Part of the strength in the dollar can be ascribed to fat US interest rates, and another part is due to the strong US economy. All things being equal, money will always seek the best return. However, the weak foreign currencies, particularly the weak yen, mean that foreigners enjoy a terrific competitive advantage when selling merchandise to the US. The D-mark has been weak, mainly due to fears that it will be displaced by the forthcoming European single currency. On April 11, Treasury Secretary Rubin, who has been opting for a strong dollar, reversed course, confessing that he was concerned about the dollar's rapid rise. The Japanese have also stated that they do not want a lower yen. We'll see.



NOTES & QUOTES: The staunchly Democratic *NY Times* has, I believe, finally "had it" with Clinton, Janet Reno, and the whole White House crowd. In its April 16 lead editorial entitled "See No Evil," the *Times* states, "For months now, evidence has emerged suggesting violations of the law by operatives of President Clinton's re-election campaign, particularly in accepting money from foreign sources. There have also been ample indications that this activity was carried out with the consent of the people around the President, if not Mr. Clinton himself . . . To insulate herself from these inconvenient facts, Ms. Reno has stuck to a very narrow and willfully contorted interpretation of Federal corruption statutes . . . What in the world can she think she is doing these days?" **Russell comment:** The corruption and hypocritical attitude of the Clinton Administration is straining the patience of even staunch Democrats. Question: how can the American public put up with it all? Maybe Gerald Seib (columnist for the *WSJ)* provides the answer. In his April 16 column Seib writes: "Depressingly, Clinton's hidden advantage today may be the public's breathtaking level of cynicism, which leaves voters believing the worst of investigators as well as those they investigate."

* *

Now it turns out that Las Vegas has overbuilt and has too many rooms. Russell bet -- in the next recession, Las Vegas will be amazed at how high their vacancy rates can climb (news clip from the April 14 *WSJ).*

Too Many Rooms at the Inns Damped Quarterly Profits at Casino Concerns

By Dwight Oestricher
Dow Jones Newswires

Extra rooms in Las Vegas and an extremely competitive environment in dockside casino markets chipped away at casino-hotel operators' results in the quar-

Caesar's Palace will each add 1,000 rooms.

Mirage Resorts Inc., Las Vegas, saw relatively flat revenue per available room as New York New York ate into business at Mirage's Treasure Island property, said

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They're calling it "the biggest corporate giveaway of the century." What is it? It's US corporations receiving gratis TV channels worth billions of dollars. The channels will not just be used for upcoming digital TV, but also to sell new products such as stock quotes or all-sports channels. These new second channels have been estimated to be worth $70 billion or more. Said cable industry chief Decker Anstrom (and, of course, the cable companies are threatened), "It makes the sale of Manhattan for a few beads look like a hard bargain." Complained Sen. John McCain (R-AZ), "This gift takes federal largesse to a breathtaking new level." Writes *Daily Variety,* "The decision is one of the most far-reaching industrial policies in the history of the United States. The Federal Communications Commission approved a goal of making today's 230 million TV sets obsolete by 2006." But gratis? Why the giveaway? Ostensibly, the reason is because the broadcasters will have to spend millions of dollars each for new equipment to deliver digital TV, and therefore they can't afford to spend billions to acquire the digital channels.

We're seeing the dawn of the US digital TV era. What it means: (1) Every one of the nation's 1,600 stations gets a digital channel, free. (2) As a condition of receiving the channel, broadcasters must

bring at least three digital stations online in each of the top 10 markets within 24 months. (3) By 2006 all current analog channels will go dark and revert back to the government. Current TV sets will require a converter that will cost about $50 to receive the new digital signals. (4) Digital technology will allow stations to broadcast five signals in the single channel, creating the potential for new digital signals. (5) Digital sets will offer superior pictures and sound quality; the shape of the new TV sets will be rectangular, more like a movie screen.

* *

The war for the minds and eyes of Americans continues red hot. Will PCs rule the world? Will TV screens rule the world? Or will some other technology, not yet created, be the eventual winner? Whatever it is, Microsoft wants to lead it. Two weeks ago Microsoft bought WebTV for $425 million. Why? Because Microsoft's current customer base is limited to the 40% of US homes that own a PC. But with WebTV, Microsoft hopes to have access to the 58% of homes that have no PC but do have at least one TV. For a cost of around $300, a WebTV "box" will give you access to the Internet, and that's what Microsoft wants. Of course, MSFT also wants to be the BIGGEST factor on the Internet. Problem for MSFT -- a lot of PC makers are going to be tough competition as they also enter the field of accessing the Internet via cheap boxes. By the way, WebTV was introduced only two years ago in 1995, with the help of a group of backers including Paul Allen, one of Bill Gates' original partners.

* *

Scott McNealy, CEO of Sun Microsystems, believes he has the technology to beat Microsoft. The system is called Java. Java allows programmers to write software on almost anything that has a computer chip in it -- old computers, Macs, a TV. Said McNealy at a recent conference, "Right now Java obsoletes every programmer on the planet unless they learn it." With Java, programmers won't have to build products around Microsoft's Windows. The revolution could be starting. A friend who attended a recent conference told me that when McNealy spoke the audience was enthralled. Later when Bill Gates spoke, he felt that Gates sounded very defensive. Mmm. Java would be free of the "fences" or obstructions that Microsoft has created. So the slogan at this conference was, "With no fences, who needs Gates?" **Russell comment:** Microsoft, capitalized in the market at $120 billion, is selling at a very fat 10-12 times sales. Keep your eye on the stock of Microsoft (MSFT). At today's price and with Java competition, it could be a long-term short. Question: with rising competition, is this why Gates wants MSFT to be a media company as well as a software company? I think so.

* *

What do I think of tobaccos' move to end all (or most) of the controversy with a $200 to $300 billion payment to be made over the next 25 years? I think lawyers will fight it -- after all, the lawyers don't want a settlement, they'd prefer lawsuits over the next 25 years, or 50, or 100 years.

* *

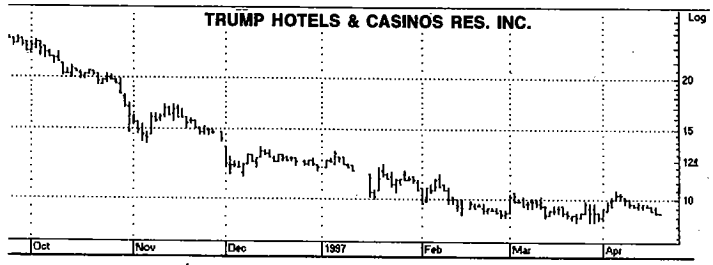
I don't play **golf**, but I was fascinated watching the Masters starring the incredible 21-year-old Stanford sophomore, Eldrick "Tiger" Woods. Interesting item: Tiger's father was a colonel in the Green Berets. Too bad I don't play golf because San Diego has 74 golf courses and about 360 "perfect" days a year when you can play.

* *

China: Should the US be worried about China's growing economic prowess? Maybe. Last year China's economy grew by a whopping 9.3%, second fastest in the world. Up to recently China exported mostly low-end items like textiles and cups and dishes. But now China is making and exporting items that the US makes; China is turning into a high-tech exporter, and that worries the US. The figures tell the story. China's trade surplus with the US rocketed to $39.5 billion last year. And as a barometer of China's economic health, its foreign reserves swelled to $75 billion. Now the world wonders what will happen when China starts building and exporting autos and aerospace products and pharmaceuticals, thereby taking advantage of its huge, highly-skilled very low-wage, work force. **Item:** International Data Group, a Boston-based publishing and market research company, publishes *China Computerworld* with a circulation of 145,000. Unlike Japan, China has thousands of individual entrepreneurs. They intend to be a power in software, networking and multimedia.

* *

It pays to be a CEO. The stock of Trump hotels (DJT) has dropped 70% in recent months, but despite that Donald Trump received a pay package of $7 million. By the way, the Trumpster is now building the world's biggest yacht. You just can't keep a good man down.



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Donna Karan's stock hasn't fared much better than Trump's. When it was issued in June, DK hit a high of 30 1/8. In March it sold as low as 8 7/8. It's just under 11 now. Next comes Ralph Lauren, who is readying an initial public offering of $600 million in stock. Lauren is a much steadier outfit than Karen, but the market is now shakier. The garment makers are getting in line to cash out. Valentino has hired Goldman Sachs as his financial advisor and Versace affirmed that his company may go public next spring.

* *

Is America being over-bagel-ed? Our local bagel chain just sold out to a national chain. Dunkin' Donuts now features bagels. The Franchise section of the *WSJ* (Mar. 10) includes ads for bagel franchising from Goldberg's Bagels, Big Apple Bagels and Big City Bagels. Russell opinion: At this point I'd rather sell a bagel franchise than buy one.

* *

Meat: "Big Texas Steak Ranch" restaurant in Amarillo serves a 72-ounce sirloin steak with shrimp cocktail, roll, baked potato and salad for $50. The steak is two inches thick, eight inches wide and a foot long. If you can eat the whole meal, it's free. Since the early '60s, 40,000 people have attempted to down this monster meal and not pay the tab. An incredible total of 7,000 have succeeded. The Ranch gets about one eater a night trying for the gratis meal.

* *

Gambling via the Web has become a big-time business. Most of these Internet gambling businesses are located outside the US where they are legal. Now Congress is readying a bill which would outlaw all gambling on the Internet. Why does Congress care? Easy, they want the taxes, and an off-shore gambling setup avoids US taxes. The new law would possess one unusual gimmick -- it would make those who gamble criminals, subject to a $5,000 fine. What's the American Gaming Association's position on the potential new law -- they're all for it, surprise.

* *

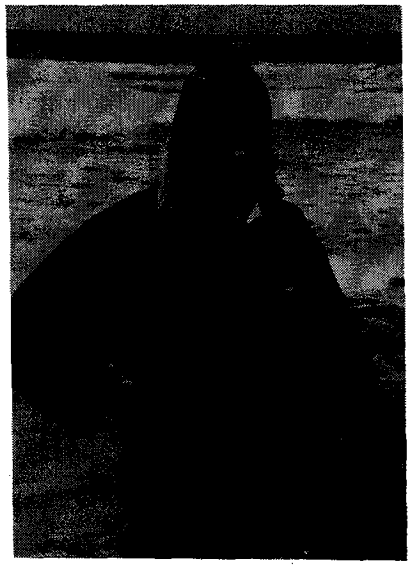
Cats now outnumber dogs in US homes. There are currently about 55 million dogs in homes, about 60 million cats. Reason: the US' aging population tends to live in apartments or smaller living quarters; also many homes have more than one cat (cats can also be left alone for the weekend, whereas dogs need more attention).

* *

In 1995 there were 600,000 Marijuana-related arrests in the US. Since Clinton was first elected, marijuana arrests have increased each year by 43%. More Americans are in prison now for pot offenses than ever before, yet teenage use of pot has doubled since 1992. Says Stewart J. Greenleaf, Pennsylvania state senator who wrote tough drug-sentencing law that has flooded his state's prisons with low-level offenders who cannot be paroled, "These laws just haven't worked as we planned." According to the current *Atlantic Monthly*, "Today there are far more people in federal prison for marijuana crimes than for violent crimes. More people are now incarcerated for marijuana than for manslaughter or rape." **Russell comment**: I think something's a bit nutty.

* *

Note for **Parents With Kids:** If your offspring have any outstanding athletic ability, encourage it -- it helps a lot in getting kids into good colleges. Cal Berkeley had 10,000 kids with 4.00 or



better grade point averages apply. My son Ryan was accepted at Berkeley with major help from his water polo prowess. Athletic perks for Ryan include free (scholarship) classes this summer, signing up for his classes ahead of the regular student body, full medical attention, physical therapy, massages when he wants, etc. My youngest daughter, Lauren (age 16) is now taller than I am, plays water polo for La Jolla High School, and just won the Coach's Award for top player on team. If she can keep her marks and athleticism up, it will be a major plus in getting into a good college (she hopes to join Ryan at Cal). By the way, Cal now has 14 men's sports and 14 women's sports. Fastest growing area of college (and probably pro) sports is **women's sports** (women's sports are appearing ever-more frequently on TV -- and I'm not just talking about beach volley ball with its shapely lassies). Here's a late snap of my youngest daughter, Ms. Lauren, in her water polo outfit. The boys at Cal better watch out.

* *

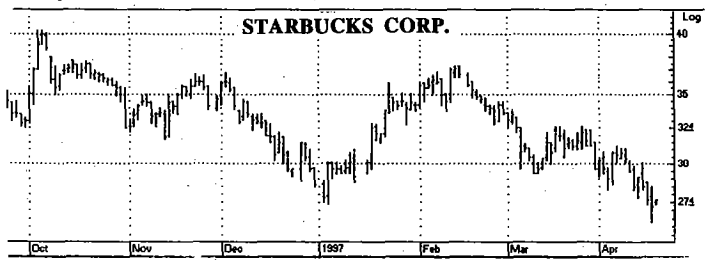
Hollywood: The coming movie, "Titanic," is rumored to cost $180 to $200 million, which would be a new record. Russell opinion of the best unheralded movie of '97 -- "Bound," but don't see it unless you have a broad outlook on life, since it features lesbianism (have you noticed all the lesbian-oriented ads in the newspapers; it seems like lesbianism is the new trend of the mid-'90s). Oh yes, two more trends: (1) models with blank expressions (duh) looking like they're on drugs and (2) shock, as per Howard Stern or the new novel, "The Kiss," in which a woman details her long-term incestuous relationship with her father.

* *

Allen Ginsberg is dead. The poet laureate of the Beat Generation was laid to rest last week. Ginsberg was one of the first high-profile Americans to reveal that he was gay. I used to see Allen wandering around Columbia University back in the '40s, and I knew his crowd. Allen wrote part of his famous poem, "Howl," while on peyote. Jack Kerouac was a class above me in high school (Horace Mann in NYC), and between Kerouac, Ginsberg, Corso, Burroughs and the West Coast bunch, they changed the culture of America, leading the way to the hippies, Woodstock, the sexual revolution, the drug culture and the end of the Vietnam War (oh, I forget, our government never admitted that it was a war). "Society needs angry noisemakers," writes the April 7 *USA Today editorial,* "They ensure that art and culture remain vital . . . Who will step forward to fill the space? Who among the many posers and pronouncers has the audacious rhythm, the big noise necessary to claim the Ginsbergian margin? Or did Ginsberg . . . leave too soon?" **Russell comment:** Ginsberg's greatest attributes were that he was totally honest and fearless. But then again, to be totally honest, I guess you have to be fearless.

* *

In my younger days I used to drink five cups of coffee a day. Now I'm allergic to coffee or, I should say, to caffeine. I believe caffeine is a powerful drug, affecting many parts of the body and brain as well as being a very powerful diuretic (i.e., pressure on the bladder). Now, if I drink a cup of decaffeinated coffee in the morning, I have trouble sleeping that night. Chocolate contains a lot of caffeine, so I have to avoid chocolate as well as coffee (and I love chocolate). Which brings me to Starbucks, the national chain of coffee houses, a chain that sells all sorts of plain and fancy coffees at all sorts of fancy prices. I grew up drinking nickel cups of coffee at New York's Automats or at Chock Full O' Nuts. I remember when the price of coffee beans surged (it was back in the late-50s), and the price of a cup of coffee, nationwide, went up to a dime a cup, but with free refills. Then the price went up to a quarter, and from there it was 35 cents, 50 cents, and today you can pay two and three bucks for a fancy cup of coffee that probably cost the purveyor about a dime. Here's the chart of Starbucks (1,145 stores), and as you can see, the stock appears toppy. What's happening? Are coffee drinkers spending too much on a cup of coffee or was the stock just overpriced, or is the competition coming in? Or has the 70% rise in coffee beans squeezed profits? I don't know the answer, but I do know that the Starbucks across the street from my office is busy (they open at 6AM), and, instead of nickels, people are peeling off paper currency for the great American cup of coffee. Pardon me while I go to the water fountain -- my bladder can't take that caffeine.



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Clinton's phony budget figures are in, followed by the GOP's phony budget figures. The budget deficit to whither away by 2002? It won't happen. Why? Because the real crisis is America's aging population. The demographics of this country (and many others) are beginning a permanent change. The new world order in the US is that every oldster will be supported by only two working people. Today the old people are supported by three workers. The problem -- a growing number of people are claiming Social Security benefits. On top of that, they are also claiming health benefits. A few million broken hips, a few million cataracts, and the budget will balloon off into space. It will happen, and so far, the politicians are doing little or nothing about it.

As for the Republicans, they're fading out of the picture (the latest issue of the *Economist* screams across its cover, "What's Happened to the Republican Revolution?" Well, the Republicans have dropped the idea of dumping the present insane tax system (flat tax, consumption tax) and they're back to their old "lower the capital gains tax" (yawn). The Republican "Contract With America" -- a memory. The GOP's guts -- gone. Is there any difference between the Republicans and the Democrats? I dunno. The Republicans -- what do they stand for? I dunno. Maybe the latest *Fortune* magazine (April) has it right. Quoth *Fortune,* "President Clingrich and Speaker Gington: the parties' ideological cross-dressing is probably why American politics appear comatose."

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The only central bank that you can buy shares in is the Swiss central bank. The shares recently jumped by 60% when the bank announced that they would revalue their large gold holdings (2,590 tonnes of gold) and donate a large portion to a national humanitarian fund. Price of shares in the Swiss central bank run around $1,000 a share. Some 63% of the SNB is owned by various Swiss Cantons and 3,164 shares are owned by private holders, mostly in ten-share lots.

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Funny, I always thought I was a Jew. The old test was that if your mom was Jewish, that was it -- you were a Jew. The concept was that everybody knows who your mother was, but we can't be really sure who your father was. Under the old definition, three of my kids are 75% Jewish (their mother was half Jewish), and my two youngest kids are 50% Jewish -- their mother was Protestant. Now it turns out that I'm not really a Jew. I've evidently been excommunicated by the 600 member Union of Orthodox Rabbis of the United States and Canada; they've made obedience to the Torah's 613 commandments the acid test of Judaism. I'll be honest, I don't know what the 613 commandments are, and if I did I doubt whether I could live under maybe more than 20 to 30 of them, maybe fewer. Ah well, one of these days I'll find out what I am (my mother was a blue-eyed blond, maybe she was a Christian trying to pass as a Jew). In the meantime, famed lawyer Alan

Dershowitz has come out with a new book ("The Vanishing American Jew") in which he states that the Jews are an "endangered species," since Jews are marrying out of the faith at a 50% rate here in the US. What will anti-Semites and Neo-Nazis do when we run out of Jews? Who do you hate then? Gad, what a problem.

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Hey, I'm not a snob. I subscribe to *Star* (which sunk Dick Morris), *National Enquirer* (which exposed O. J.'s Magli shoes lie and brought in Cosby's killer), *Entertainment Weekly*, *People*, *New York Observer*, *Buzz*, etc. How else would I get the latest gossip. For instance, did you know that Michael Ovitz doesn't answer Michael Eisner's phone calls? Did you know that Steven Spielberg keeps a motorcycle outside his studio for a fast escape in case of an earthquake? Did you know that Prince Albert of Monaco is pursuing Sharon Stone? Do you care? I like gossip.

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Porsche is back with the hot-selling Boxster (delivery is now 9 months). Rumor is that BMW will take over Rolls Royce (Rolls sales in 1990, 3,300 cars sold, last year only 1,744 -- price $228,000). Last week we went to the auto show in San Diego. Biggest excitement was around the Mercedes' SLK 230, the new little roadster with the automatic folding metal top. Mine was delivered two weeks ago, and I love the car; it's pretty, it's fast enough, the top is amazing, and I have more fun driving it than I've had with any other car. Delivery on the SLK is around 18 months. It's worth waiting for.

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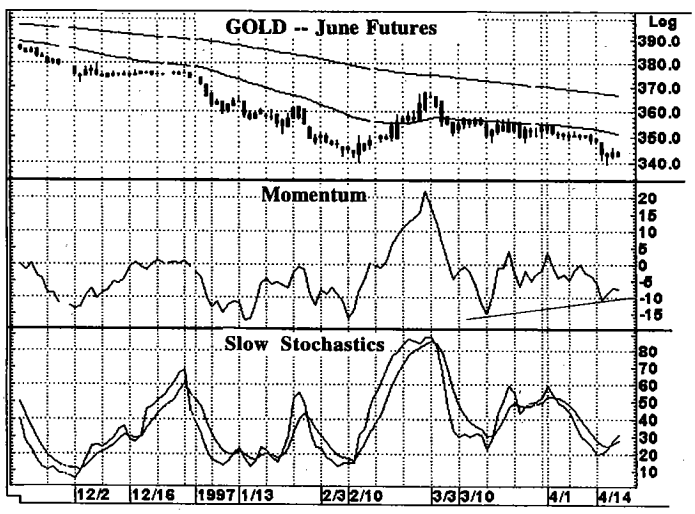
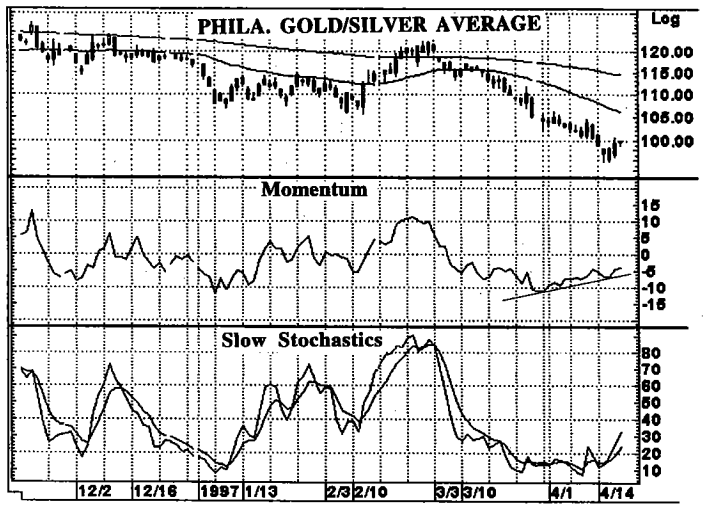
GOLD: Through the years (and there have been a lot of them), I've gathered a large collection of gold-philes. A couple of thousand of you went through the big (huge) precious metals bull market of the '70s with me, and many of us garnered profits that we still dream about. For instance, I bought double eagle gold coins in '74 for as low as seventy bucks a piece and I sold them in '79 for near $700.

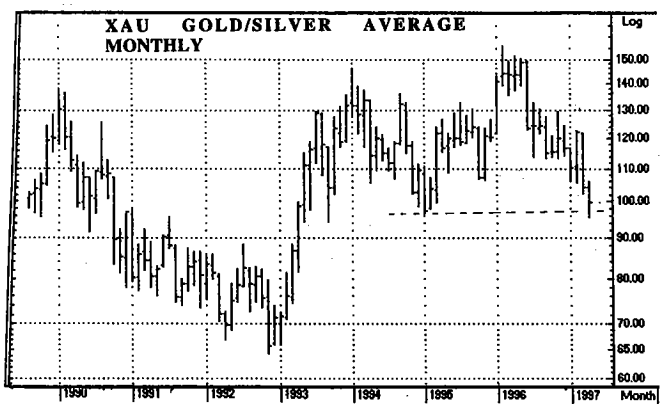
Ah, but that was then, this is now. So what's the gold picture today? Here's a three-way chart of gold, the metal. The top frame shows the June (this is the active month) gold futures with the 34-day and 144-day moving averages. The shorter-term or 34-day moving average stands at 351, and this is the first upside target for the metal.



What are the odds that gold is bottoming? I put the odds at better than 50/50. (Boy, am I an optimist!) But it isn't all optimism. Note that as gold declined, the momentum line (13-week rate-of -change) has been rising. This is a plus. Note also that the stochastics appears to have bottomed, and they are now in the process of turning up. The big question -- gold appears to be sold out and ready for a rally. But how strong a rally, that's the real question? We'll see.

The chart of the XAU Gold/Silver Average is pretty much the same story as gold. The 34-day moving average for XAU stands at 107, so that's the upside target. XAU has taken a horrible beating since '96. Here's a monthly chart of XAU going back to mid-1989. Note that XAU has declined to test its January 1994 extreme low of 96.66. Last week, on April 15, XAU sank to an extreme low of 95.75 but closed at 97.46. Hopefully, the April 15 low represents the end of the decline. We'll see here too.





LATE NOTES: You can't force the market to reveal its secrets, not until it's ready. And this market is just not ready. My PTI is in its tightest range in years, and my reading of this is that the market is pretty much in equilibrium -- with neither the bulls nor the bears having the upper hand.

From March 11 (Dow closed at **7079.39**) to April 11 (Dow closed at **6391.69**), the bears gave the market their best shot. And they did quite a bit of damage, but they couldn't knock the Transports down, and they couldn't pull the bricks out from under the market structure. By April 11 the bears backed off; they were tired.

So the bulls re-grouped, and on April 14 they took over. By April 17 the Transports had rallied to a new record high. But that was just the Transports. There was the problem of the Dow. To confirm the Transports strength, the Dow now must better its all-time high of **7079.39.** And it would certainly help if the S&P 500 would also confirm by bettering its February 18 record high of **816.29.**

So the battle continues. Bull or bear market? Trillions of dollars are involved. It's probably no exaggeration to say that the economy of the entire globe is involved. We await the verdict of the marketplace.

Russell opinion: I continue to believe the market is forming an important TOP.

NEXT MAILING: May 7, 1997